

TRANSPORT CORP.

RESULT UPDATE

KEY DATA

Rating	BUY
Sector relative	Neutral
Price (INR)	446
12 month price target (INR)	530
Market cap (INR bn/USD bn)	34/0.5
Free float/Foreign ownership (%)	33.3/1.6
What's Changed	
Target Price	↑
Rating/Risk Rating	—

QUICK TAKE

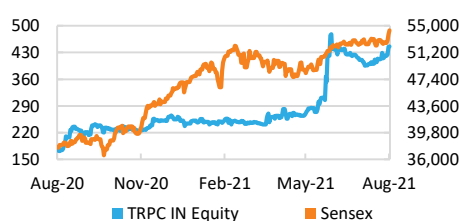
	Above	In line	Below
Profit	●		
Margins	●		
Revenue Growth		●	
Overall	●		

FINANCIALS

(INR mn)

Year to March	FY20A	FY21E	FY22E	FY23E
Revenue	27,178	28,024	32,158	37,896
EBITDA	2,405	2,612	3,167	3,898
Adjusted profit	1,531	1,586	2,036	2,543
Diluted EPS (INR)	19.8	20.1	25.8	32.2
EPS growth (%)	5.4	1.5	28.4	24.9
RoAE (%)	14.9	13.7	16.5	18.2
P/E (x)	22.5	22.2	17.3	13.8
EV/EBITDA (x)	15.8	14.0	11.9	9.4
Dividend yield (%)	0.4	0.5	0.6	0.7

PRICE PERFORMANCE



Explore:



Financial model



Podcast



Corporate access



Video

Holding up in rough environment

Transport Corporation of India (TCI) delivered Q1FY22 revenue – down 23% QoQ – along expected lines given lockdowns. Margin surprised positively, up 90bps QoQ, due to the higher Seaways contribution. The 14% QoQ slide in PAT is lower than our estimate, highlighting the strength of TCI's moderate asset ownership model.

All in all, we are bullish on TCI; its improving business mix should lift margins and returns profile over the next three–four years, which can drive a re-rating. Factoring in the strong performance, we are revising up the TP to INR530 (up from INR450), implying 19x one-year PE (up from 17x). At 15x PE, the margin of safety is ample. Retain 'BUY'.

Strong performance in another lockdown-hit quarter

TCI's Q1FY22 revenue slid 23% QoQ—in line with estimates given the lockdowns in April and May. However, margin surprised positively and expanded 90bps QoQ due to a change in business mix (higher contribution from shipping) and better sequential margins in the shipping business. PAT decreased by only 14% QoQ—better than our estimate. The freight division's revenue dipped 26% QoQ while its margin came in at 4% (4.5% in Q4FY21). Supply chain revenue, given the segment's dependence on the auto sector (~80%), plunged 27% QoQ. The Seaways division's Q1FY22 revenue ebbed only 9% QoQ, but its margin surged 70bps QoQ.

Business mix change to drive re-rating

Our investment rationale for TCI is premised on improvement in its underlying business mix over the next three–four years. The company is targeting a higher-margin LTL mix of 40% in the freight division. The supply chain's division operates in the fast-growing 3PL category, which is expected to log a CAGR of 15%-plus over the next five–seven years. TCI also plans to add capacity in Seaways (in Q4FY22), which should aid margin improvement and RoCE. Overall, the company's focus on establishing multi-modal capabilities would show up in its growth in four–five years.

Outlook and valuation: Improving business mix; Retain 'BUY'

Factoring in a strong Q1FY22 performance and an improving business mix (better margin and RoCE profile), we are revising up the SoTP-based TP to INR530 (up from INR450), implying a one-year forward PE of 19x (from 17x, while tweaking up our estimates. The stock at 15x PE provides ample margin of safety in our view.

Financials

Year to March	Q1FY22	Q1FY21	% Change	Q4FY21	% Change
Net Revenue	6,108	3,280	86.2	7,966	(23.3)
EBITDA	711	279	155.2	856	(16.9)
Adjusted Profit	484	99	390.8	560	(13.6)
Diluted EPS (INR)	6.3	1.3	390.8	7.3	(13.6)

Financial Statements

Income Statement (INR mn)

Year to March	FY20A	FY21E	FY22E	FY23E
Total operating income	27,178	28,024	32,158	37,896
Cost of Goods Sold	22,143	22,972	26,210	30,731
Employee costs	1,572	1,455	1,619	1,902
Other expenses	1,058	984	1,162	1,365
EBITDA	2,405	2,612	3,167	3,898
Depreciation	825	928	1,108	1,185
Less: Interest expense	343	267	253	297
Add: Other income	201	255	372	350
Profit before tax	1,438	1,672	2,177	2,767
Prov for tax	159	238	401	510
Less: Other adjustment	153	71	260	286
Reported profit	1,432	1,504	2,036	2,543
Less: Excp.item (net)	99	82	0	0
Adjusted profit	1,531	1,586	2,036	2,543
Diluted shares o/s	77	79	79	79
Adjusted diluted EPS	20	20	26	32
DPS (INR)	2.0	2.3	2.6	3.3
Tax rate (%)	11.1	14.3	18.4	18.4

Important Ratios (%)

Year to March	FY20A	FY21E	FY22E	FY23E
EBITDA margin (%)	8.9	9.3	9.8	10.3
PBT growth (% YoY)	(6.7)	16.2	30.2	27.1
Net profit margin (%)	5.6	5.7	6.3	6.7
Revenue growth (% YoY)	(1.3)	3.1	14.8	17.8
EBITDA growth (% YoY)	(3.6)	8.6	21.2	23.1
Asset turnover (X)	2.0	1.9	2.1	2.2
Adj. profit growth (%)	5.4	3.6	28.4	24.9
EBIT margin (%)	5.8	6.0	6.4	7.2

Assumptions (%)

Year to March	FY20A	FY21E	FY22E	FY23E
GDP (YoY %)	4.8	(4.0)	7.0	7.0
Repo rate (%)	4.4	3.0	4.0	4.0
USD/INR (average)	70.7	75.0	73.0	73.0
Freight margin (%)	3.9	4.1	4.1	4.0
SCM margin (%)	9.8	10.7	10.6	11.0
Real. per DWT (INR)	85,000	85,000	90,000	90,000
Freight div. (% YoY)	3.3	(7.8)	12.0	19.7
SCM growth(% YoY)	(8.9)	1.1	16.0	15.0
Seaways (% YoY)	3.5	7.2	16.6	22.3

Valuation Metrics

Year to March	FY20A	FY21E	FY22E	FY23E
Diluted P/E (x)	22.5	22.2	17.3	13.8
Price/BV (x)	3.4	3.0	2.7	2.4
EV/EBITDA (x)	15.8	14.0	11.9	9.4
Dividend yield (%)	0.4	0.5	0.6	0.7

Source: Company and Edelweiss estimates

Balance Sheet (INR mn)

Year to March	FY20A	FY21E	FY22E	FY23E
Share capital	154	154	154	154
Reserves	10,085	11,543	12,820	14,762
Shareholders funds	10,239	11,697	12,975	14,917
Minority interest	57	86	47	47
Borrowings	3,720	2,555	3,300	3,069
Trade payables	639	759	678	799
Other liab & prov	2,159	2,272	1,638	1,638
Total liabilities	16,833	17,388	18,656	20,489
Net block	7,713	8,015	8,955	8,976
Intangible assets	5	31	6	6
Capital WIP	216	52	52	52
Total fixed assets	7,933	8,099	9,014	9,034
Non current inv	1,354	1,500	1,589	1,589
Cash/cash equivalent	259	395	240	1,063
Sundry debtors	4,873	5,110	5,521	6,503
Loans & advances	225	124	226	226
Other assets	1,717	1,608	1,529	1,536
Total assets	16,833	17,388	18,656	20,489

Free Cash Flow (INR mn)

Year to March	FY20A	FY21E	FY22E	FY23E
Reported profit	1,432	1,504	2,036	2,543
Add: Depreciation	825	928	1,108	1,185
Interest (net of tax)	230	179	170	199
Others	(81)	255	(548)	(538)
Changes in WC	117	181	(828)	(866)
Operating cash flow	2,523	3,047	1,938	2,522
Less: Capex	(1,321)	(1,241)	(2,230)	(1,205)
Free cash flow	1,202	1,807	(292)	1,317

Key Ratios

Year to March	FY20A	FY21E	FY22E	FY23E
RoE (%)	14.9	13.7	16.5	18.2
RoCE (%)	13.1	13.7	15.9	17.8
Receivable days	67	65	60	58
Payable days	9	9	8	7
cash conversion cycle	59	57	53	51
Working cap (% sales)	15.9	14.6	16.2	16.1
Gross debt/equity (x)	0.4	0.2	0.3	0.2
Net debt/equity (x)	0.3	0.2	0.2	0.1
Interest coverage (x)	4.6	6.3	8.1	9.2

Valuation Drivers

Year to March	FY20A	FY21E	FY22E	FY23E
EPS growth (%)	5.4	1.5	28.4	24.9
RoE (%)	14.9	13.7	16.5	18.2
EBITDA growth (%)	(3.6)	8.6	21.2	23.1
Payout ratio (%)	10.6	11.9	10.1	10.3

Exhibit 1: Quarterly financial snapshot

INR mn	Q1FY22	Q1FY21	YoY %	Q4FY21	QoQ %	FY21	FY22E	FY23E
Revenue	6,108	3,280	86.2	7,966	(23.3)	24,520	28,129	33,263
Operating expenses	4,835	2,587	86.9	6,416	(24.6)	19,738	22,491	26,454
Employee Benefit Expenses	391	289	35.4	425	(8.0)	1,402	1,557	1,832
Others	171	126	36.1	271	(36.7)	902	1,067	1,256
Total expenditure	5,397	3,001	79.8	7,111	(24.1)	22,042	25,116	29,541
EBITDA	711	279	155.2	856	(16.9)	2,479	3,013	3,722
Depreciation	234	195	19.6	268	(12.8)	881	1,061	1,137
EBIT	477	83	473.0	588	(18.8)	1,598	1,952	2,584
Interest	41	70	(41.4)	56	(27.1)	248	224	265
Other income	107	89	20.0	105	1.3	352	372	350
Add: Exceptional items	0	0	N/A	35	(100.0)	140	0	0
Profit Before Tax	543	103	429.0	602	(9.8)	1,562	2,100	2,669
Less: Provision for Tax	59	4	1,348.8	73	(19.1)	214	378	480
Reported Profit	484	99	390.8	529	(8.5)	1,348	1,722	2,189
Adjusted Profit	484	99	390.8	560	(13.6)	1,487	1,722	2,189
Adjusted Diluted EPS	6.3	1.3	385.7	7.3	(13.6)	19.4	22.4	28.5
P/E (x)							17.3	13.8
As % of net revenues								
Operating expenses	79.2	78.9		80.5		80.5	80.0	79.5
Staff expenses	6.4	8.8		5.3		5.7	5.5	5.5
Other expenses	2.8	3.8		3.4		3.7	3.8	3.8
EBITDA	11.6	8.5		10.7		10.1	10.7	11.2
Net profit	7.9	3.0		7.0		6.1	6.1	6.6

Source: Company, Edelweiss Research

Company Description

Transport Corporation of India Limited (TCI) is an integrated supply chain and logistics solutions provider. The Company's segments include Freight Division, Supply Chain Solutions Division, Seaways Division, Energy Division and Global Division. It offers multimodal transportation solutions. Its divisions include TCI Freight Division, TCI Supply Chain Solutions Division, TCI Seaways Division and TCI Global Division, among others. TCI Freight is a surface transport entity. TCI Supply Chain Solutions division offers services to sectors, such as auto, retail, telecom, electrical and pharmaceuticals. TCI Seaways division caters to coastal cargo requirements for transporting container and bulk cargo. TCI Global division provides customs clearance, international inbound and outbound freight handling (air and sea), third-party logistics, multimodal (air, surface and sea) services and project cargo. It has a fleet of customized vehicles and over 12 million square feet of warehousing space.

Investment Theme

We are bullish on TCIL as: 1) it is focusing on changing its business mix by growing the high margin LTL business and growing fast in the 3PL segment; 2) the 3PL segment backdrop remains very conducive for ~15% CAGR over the next six-seven years, which will add the structural growth element to TCIL's business; and 3) we believe that the market continues to undervalue the long-term potential.

Key Risks

Our thesis rests greatly on the implied benefits that GST is likely to offer such as catalysing warehouse consolidation in India, which would nudge several large customers towards outsourced logistics. A slower-than-expected pickup in this trend is a key downside risk to our thesis.

Any downfall in trucking freight rates, particularly due to aggressive pricing by PE backed transporters can impact the profitability of TCI adversely.

Additional Data

Management

CEO	Vineet Agarwal (MD)
CFO	Ashish Tiwari
COO	
Other	
Auditor	Brahmayya & Co.

Holdings – Top 10*

	% Holding		% Holding
HDFC AMC	7.54	LIC AMC	0.85
HDFC Trustee	7.36	Tata AMC	0.83
Sundaram AMC	1.04	GIC AMC	0.60
IDFC AMC	0.95	JP Morgan	0.51
Dimensional Fd.	0.90	Principal Group	0.34

*Latest public data

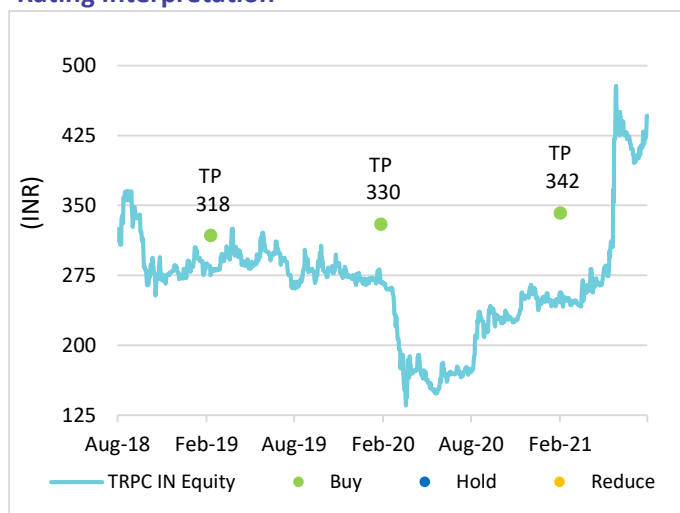
Recent Company Research

Date	Title	Price	Reco
26-May-21	Munching miles; <i>Result Update</i>	366.6	Buy
08-Feb-21	Business mix change to drive rerating; <i>Company Update</i>	245.3	Buy
05-Feb-21	Geared up; <i>Result Update</i>	256.55	Buy

Recent Sector Research

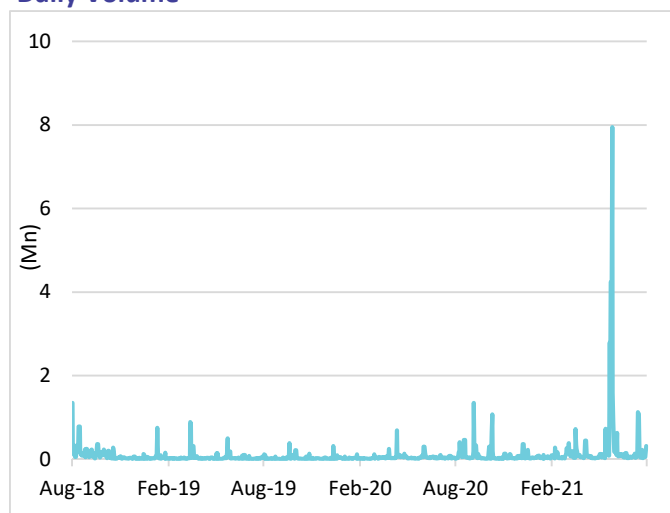
Date	Name of Co./Sector	Title
30-Jul-21	Container Corporation	Gaining traction as pieces fall in place; <i>Result Update</i>
30-Jul-21	Blue Dart Express	Turnaround story intact; <i>Result Update</i>
28-Jul-21	Mahindra Logistics	Absorbing the impact; <i>Result Update</i>

Rating Interpretation



Source: Bloomberg, Edelweiss research

Daily Volume



Source: Bloomberg

Rating Distribution: Edelweiss Research Coverage

	Buy	Hold	Reduce	Total
Rating Distribution*	173	54	19	247
	>50bn	>10bn and <50bn	<10bn	Total
Market Cap (INR)	215	40	4	259

*1 stocks under review

Rating Rationale

Rating	Expected absolute returns over 12 months
Buy:	>15%
Hold:	>15% and <-5%
Reduce:	<-5%

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